

Message Text

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ACTION EA-12

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-10 NSAE-00 USIA-15 TRSE-00 XMB-04
OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 L-03 H-02
NSC-05 SS-15 STR-07 CEA-01 PA-02 /117 W
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P R 080935Z MAR 78
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 5920
TREASURY DEPT WASHDC
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME

UNCLAS SECTION 1 OF 3 TOKYO 3755

USEEC
USOECN ALSO FOR EMBASSY

E.O. 11652: N/A
TAGS: EFIN, JA
SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - MAR 2-8

REF: A) TOKYO 3619; B) TOKYO 20027; C) TOKYO 3487
D) TOKYO 3352

1. SUMMARY. YEN HITS NEW HIGHS PROMPTING CONSIDERATION OF
TIGHTER EXCHANGE CONTROLS, DISCOUNT RATE CUT AND NEW
EMERGENCY IMPORT PROGRAMS. DISSATISFACTION WITH U.S. FOREIGN
EXCHANGE POLICY PUBLICLY VOICED BY FINANCE MINISTER AND EPA
DIRECTOR GENERAL. BUDGET PASSES LOWER HOUSE. INVESTMENT
SURVEYS SHOW IMPROVING TREND. MONEY SUPPLY GROWTH WEAK IN
JAN. CAR SALES UP STRONGLY IN FEB. TOKYO CPI UP 0.5
PERCENT IN FEB. OFFICIAL RESERVES UP \$812 MIL IN FEB.
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MINISTER OF FINANCE (MOF) TO MAKE IT EASIER FOR FOREIGN
SECURITIES DEALERS TO SELL FOREIGN YEN BONDS. BOND
YIELDS HARDENED IN FEB: CALL RATES ROSE A LITTLE. END SUMMARY.

2. UPWARD PRESSURE ON THE YEN CONTINUED IN THE LATEST
WEEK, WITH THE YEN SURGING TO A NEW POSTWAR HIGH OF 235.05
ON MONDAY, MARCH 6, ON EXTREMELY HEAVY TRADING AND DESPITE

BANK OF JAPAN (BOJ) INTERVENTION ESTIMATED BY THE PRESS TO HAVE AMOUNTED TO \$400 MIL IN TOKYO ON MARCH 6 ALONG (SEE TOKYO 3619). THE FOLLOWING DAY SAW A SLIGHT EASING OF THE YEN TO 235.85 BUT ON WED, MAR 8, UPWARD PRESSURE RESUMED WITH THE YEN CLOSING THE DAY AT 235.00, A NEW RECORD HIGH. IN ADDITION TO THE \$400 MIL OF INTERVENTION MARCH 6, THE PRESS ESTIMATES THAT BOJ PURCHASED \$20 MIL ON MAR 2 AND \$30-40MIL ON MARCH 3, AND \$300 MIL ON MARCH 8. MOST MARKET COMMENTATORS VIEW THE RECENT SURGE IN THE YEN PRINCIPALLY AS AN INEVITABLE CATCHUP OF THE YEN TO THE EARLIER WEAKENING OF THE DOLLAR AGAINST EUROPEAN CURRENCIES.

3. IN REACTION TO THE LATEST SURGE IN THE YEN, PRIMIN FUKUDA (ACCORDING TO PRESS ACCOUNTS) INSTRUCTED FINANCE MINISTER MURAYAMA AND ECONOMIC PLANNING AGENCY (EPA) DIRECTOR GENERAL MIYAZAWA TO TAKE MEASURES TO COUNTER THE YEN'S RISE LEST THERE BE A SETBACK TO THE NASCENT ECONOMIC PICKUP HINTED AT BY RECENT STATISTICS. THE COUNTER-MEASURES UNDER CONSIDERATION REPORTEDLY INCLUDE TIGHTENED FOREIGN EXCHANGE CONTROLS INCLUDING A POSSIBLE FURTHER INCREASE IN THE RESERVE REQUIREMENT ON FREE YEN DEPOSITS. IN ADDITION, THE LONG-RUMORED CUT IN THE DISCOUNT RATE IS APPARENTLY BEING GIVEN INTENSIFIED CONSIDERATION AS A TECHNIQUE FOR BOTH INFLUENCING CAPITAL FLOWS AND AS A TOOL FOR COUNTERING ANY DEPRESSIVE EFFECTS ON ECONOMIC ACTIVITY UNCLASSIFIED

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FROM THE HIGHER YEN. IN HIS COMMENTS TO THE PRESS MARCH 7, MURAYAMA SAID THE FRESH RISE IN THE YEN CAN BE TAKEN AS A DECISIVE FACTOR FOR AN EARLY REDUCTION IN THE DISCOUNT RATE. (HOWEVER, THE NEXT DAY, MARCH 8, BOJ GOVERNOR MORINAGA TOLD THE DIET UPPER HOUSE THE BOJ HAD NO INTENTION, FOR THE MOMENT, OF CUTTING THE DISCOUNT RATE.) MURAYAMA WENT ON TO TELL REPORTERS THAT SINCE THE STRONG YEN IS THE RESULT OF A WEAK DOLLAR, HE PLANS TO WORK ON THE U.S. AT EVERY OPPORTUNITY TO TAKE STEPS TO STRENGTHEN THE DOLLAR. MIYAZAWA, IN HIS REMARKS TO THE PRESS, REPORTEDLY STRONGLY CRITICIZED U.S. FOREX POLICY AND SAID HE WILL URGE IMPROVEMENTS IN U.S. FOREX POLICY WHEN CEA CHAIRMAN SCHULTZE VISITS TOKYO NEXT MONTH.

4. IN ADDITION TO THE SPECULATION ABOUT FINANCIAL MOVES TO DEAL WITH RENEWED CURRENCY APPRECIATION, THE GOJ IS ALSO AGAIN LOOKING AT ADDITIONAL MEASURES TO REDUCE THE PAYMENTS SURPLUS. PRIMIN FUKUDA REPORTEDLY IS ANXIOUS TO BE ABLE TO SHOW CONCRETE RESULTS IN REDUCING THE CURRENT ACCOUNT SURPLUS WHEN HE MEETS PRESIDENT CARTER IN MAY. NO SPECIFIC NEW PLANS HAVE YET BEEN ANNOUNCED, BUT UNDER THE PRESSURE TO SHOW QUICK RESULTS

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P R 080935Z MAR 78
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VARIOUS ONE-SHOT IMPORT SCHEMES ARE AGAIN BEING BRUITED ABOUT. AMONG THE MORE NOVEL IS A PROPOSAL, WHICH THE PRESS ATTRIBUTES TO MITI, TO HAVE JAPANESE LEASING COMPANIES BUY UP AIRBUSES (DC 10 AND/OR A300) AND LEASE THEM TO AIRLINES IN ASIA AND THE MIDDLE EAST, USING CHEAP LOANS FROM THE FOREX SPECIAL ACCOUNT TO PURCHASE THE PLANES. CARRYING ITS FLIGHTS OF FANCY TO NEW HEIGHTS, MITI REPORTEDLY IS EVEN CONSIDERING THE POSSIBILITY OF BUYING BACK JAPANESE SHIPS REHISTERED IN LIBERIA AND PANAMA.

5. ON TUES, MARCH 7, THE LOWER HOUSE OF THE DIET PASSED THE FY 78 BUDGET WITH SPENDING, REVENUE, AND BORROWING REQUIREMENTS UNCHANGED FROM THE ORIGINAL GOVERNMENT PROPOSALS OF 34.3 TRILLION YEN, 23.3 TRIL YEN AND 11.0 TRIL YEN, RESPECTIVELY (TOKYO 20027). IN RESPONSE TO OPPOSITION PARTY DEMANDS, 40 BIL YEN OF ADDITIONAL SOCIAL SECURITY EXPENDITURS WERE ADDED, TO BE FINANCED BY DRAWING ON BUDGETED RESERVES. THE 300 BIL INCOME TAX REBATE PROPOSAL WAS SEPARATED FROM THE

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MAIN BUDGET BILL AND WILL BE HANDLED UNDER SEPARATE LEGISLATION.

ALTHOUGH THE NEW BUDGET WILL GO INTO EFFECT AUTOMATICALLY IN 30 DAYS, WHETHER OR NOT THE UPPER HOUSE HAS ACTED, UPPER HOUSE IS CERTAIN TO DEBATE IT AT LENGTH, THUS AFFIRMING ITS IMPORTANCE IN LEGISLATIVE PROCESS. ON MARCH 8 UPPER HOUSE BUDGET COMMITTEE BEGAN SIX DAYS OF GENERAL INTERPELLATIONS IN WHICH ECONOMIC AND TRADE PROBLEMS WILL BE MAJOR TOPICS.

6. LATEST JAPAN DEVELOPMENT BANK (JDB) AND BOJ SURVEYS POINT TOWARD QUICKENING PRIVATE PLANT AND EQUIPMENT INVESTMENT IN FY 78. ACCORDING TO LATEST SEMI-ANNUAL JDB SURVEY, SUCH INVESTMENT WILL RISE 7.3 PERCENT IN JFY 78 TO 8.3 TRILLION YEN, AFTER A WEAK 0.8 PERCENT INCREASE IN JFY 77. STRENGTH IN THE NON-MANUFACTURING SECTOR, PARTICULARLY ELECTRIC POWER INDUSTRY, ACCOUNTS FOR ALL OF THE ANTICIPATED IMPROVEMENT. MANUFACTURING PLANT AND EQUIPMENT SPENDING IS EXPECTED TO DROP 6.9 PERCENT, DOWN FOR THE FOURTH YEAR IN A ROW. THE JDB SURVEY ENCOMPASSES ONE-THIRD OF PRIVATE PLANT AND EQUIPMENT SPENDING AS RECORDED IN GNP STATISTICS. SEPARATELY, THE BOJ RELEASED ITS OWN INVESTMENT SURVEY SHOWING A PROJECTED 10.7 PERCENT INCREASE IN PRIVATE PLANT AND EQUIPMENT SPENDING DURING JFY 1978. THE PROJECTIONS OF THE TWO SURVEYS NICELY BRACKET THE OFFICIAL GOJ FORECAST OF 9.9 PERCENT GROWTH IN PRIVATE PLANT AND EQUIPMENT INVESTMENT IN JFY 78.

7. GROWTH IN MONEY SUPPLY, S.A., WEAKENED IN JAN. NARROWLY DEFINED MONEY SUPPLY, M-1, DECLINED FROM PRIOR MONTH AFTER INCREASES IN PRECEDING THREE MONTHS WHILE GROWTH IN BROADLY DEFINED MONEY SUPPLY, M-2, AND BANK LOANS AND DISCOUNTS SLOWED. FOLLOWING TABLE SHOWS FACTORS CONTRIBUTING TO JAN UNCLASSIFIED

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CHANGES IN M-2, N.S.A. JAN LARGE DECLINE IN MONEY SUPPLY BROADLY BASED WITH NO SINGLE ITEM PLAYING A DOMINANT ROLE.

MONEY AND CREDIT, END OF MONTH

(IN BIL YEN; PERCENT CHANGE FROM PRIOR MONTH IN PAREN)

M-1 (JEI 123)	M-2 (JEI 126)	M-3 (N/A)	BANK LOANS AND DISCOUNTS (JEI 133)
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1977: NOV 56,142(2.0) 152,127 (1.0) 230,796 (1.2) 105,919(0.8)

DEC 57,097(1.7) 153,558 (0.9) 233,156(1.0) 106,832 (0.9)

1978: JAN 56,902(-0.3) 154,504(0.6) 235,092(0.8) 107,376(0.5)

CHANGES IN M-2

1977 1978

NOV DEC JAN

(MONTHLY PERCENT CHANGE AT ANNUAL RATE, I.E. TIMES 12):

M-2, S.A.	11.6	11.3	7.4
M-2, N.S.A.	24.6	48.4	-30.4
(FACTORS CONTRIBUTING TO CHANGES IN M-2, N.S.A.):			
CREDITS TO:			
PRIVATE SECTOR	12.9	27.8	- 7.5
NATIONAL GOVT	4.2	8.3	- 7.1
LOCAL GOVTS	0.4	2.2	- 0.1
FOREIGN ASSETS,NET		4.9	2.6 - 5.7
OTHERS	2.2	7.5	-10.0
TOTAL ALL FACTORS	24.6	48.4	-30.4

8. NEW CAR REGISTRATIONS IN FEB, S.A., REBOUNDED A SHARP
10.6 PERCENT OVER JAN, NEARLY RECOVERING THE DECLINE
IN PRECEDING TWO MONTHS. ON YEAR-OVER-YEAR COMPARISON, FEB
78 NEW CAR SALES REMAINED ONE PERCENT BELOW THE YEAR-

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EARLIER LEVEL.

NEW CAR REGISTRATIONS, S.A.			
	THOUSAND CARS	PERCENT CHANGE FROM PRIOR MONTH	
1977: DEC	204.0	- 7.6	
1978: JAN	199.1	- 2.4	
FEB	220.1	10.6	

9. TOKYO CONSUMER PRICE INDEX FOR FEB ROSE 0.5 PERCENT (N.S.A.)

TO STAND AT 121.3, 4.5 PERCENT ABOVE YEAR-EARLIER LEVEL.
NATIONAL CPI FOR JAN WAS 119.6, UP 0.4 PERCENT FOR THE MONTH
(N.S.A) AND UP 4.3 PERCENT OVER YEAR-EARLIER LEVEL (REF C)

10. JAPANESE OFFICIAL RESERVES INCREASED \$812 MIL IN FEB TO
STAND AT \$24,187 MIL AT MONTH END (TOKYO 3352). ACCORDING
TO PRESS ACCOUNTS THE RESERVE INCREASE IN FEB WAS LIMITED
BY THE OPERATION OF GOJ PROGRAMS TO FINANCE IMPORTS THROUGH
USE OF OFFICIAL RESERVES. LOANS FROM THE RESERVES FOR THIS
PURPOSE REPORTEDLY WERE ABOUT \$300 MIL IN FEB.
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11. MINISTRY OF FINANCE (MOF) INTENDS TO PERMIT FOREIGN
SECURITIES FIRMS WITHOUT BRANCHES IN JAPAN TO JOIN
UNDERWRITING SYNDICATES IN JAPAN FOR FOREIGN YEN BOND
ISSUES, NIHON KEIZAI REPORTED FEB 26. ACCORDING TO THIS
REPORT, THE ACTION WAS TAKEN IN RESPONSE TO
FOREIGN CRITICISM THAT JAPANESE SECURITIES FIRMS HAVE BEEN
ACTIVELY ENGAGING IN UNDERWRITING BUSINESS ABROAD WHILE
FOREIGN SECURITIES FIRMS HAVE BEEN VIRTUALLY BANNED FROM
DOING SAME BUSINESS IN JAPAN. AT PRESENT, ONLY THE TWO FOREIGN
SECURITIES FIRMS WHICH HAVE BRANCHES IN JAPAN(MERRILL
LYNCH AND LOEB, RHOADES) ARE AUTHORIZED TO JOIN UNDER-
WRITING SYNDICATES FOR FOREIGN YEN BOND ISSUES IN TOKYO
MARKET. RELAXATION REPORTEDLY WOULD BE EFFECTIVE APRIL 1.

EXACT MARKET IMPACT OF THIS RELAXATION WILL DEPEND
ON HOW IT IS IMPLEMENTED. AT PRESENT ALL FOREIGN YEN BOND
ISSUES ARE MANAGED BY JAPANESE FIRMS. THE AMERICAN FIRMS
WITH BRANCHES IN JAPAN INVITED TO JOIN SYNDICATES TO DATE HAVE
BEEN TIGHTLY RESTRICTED BY SYNDICATE MANAGERS ON THE AMOUNT OF
BONDS THEY ARE ALLOCATED. IN ADDITION, AMOUNTS ALLOCATED FOR
SALE ABROAD ARE LIMITED. THE UPSHOT IS FOREIGN SECURITIES
FIRMS MAY HAVE ONLY LIMITED AMOUNTS OF YEN BOND ISSUES TO OFFER
IN FOREIGN MARKETS AND WITHOUT DOMESTIC BRANCHES, FOREIGN SECURITIES
FIRMS WOULD FIND IT DIFFICULT TO MARKET IN JAPAN.

12. BOND YIELDS IN SECONDARY MARKET REBOUNDED IN FEB.
YIELDS ON GOJ AND TELEPHONE AND TELEGRAPH BONDS CLIMBED
AFTER DECLINES IN PRECEDING FOUR MONTHS. INDUSTRIAL BOND
YIELD ROSE FOR SECOND STRAIGHT MONTH IN FEB. IN WAKE OF
RESURGENCE OF YEN EXCHANGE RATES AGAINST DOLLAR,
RUMORS OF A CUT OVER ALL IN LONG-TERM INTEREST RATES HAVE
BEGUN TO CIRCULATE AGAIN. MAGNITUDE OF RATE CUTS HAS NOT
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YET BEEN FIRMED BUT SPECULATION INDICATES AROUND 0.5 PERCENTAGE POINT RATE CUT, BRINGING LONG-TERM PRIME LENDING RATE DOWN TO JUST ABOVE 7 PERCENT PER ANNUM COMPARED WITH CURRENT ANNUAL RATE OF 7.6 PERCENT.

SECONDARY MARKET BOND YIELDS, END OF MONTH

(ANNUAL RATE, IN PERCENT)

	GOVT BONDS	TELEPHONE AND TELEGRAPH BONDS	INDUSTRIAL BONDS
1977: NOV	6.581	6.777	7.097
DEC	6.273	6.580	6.961
1978: JAN	6.141	6.510	6.998
FEB	6.206	6.593	7.151

13. CALL MONEY RATES CHANGED TWICE IN FEB, FIRST REDUCED BY 0.125 PERCENTAGE POINTS ON FEB 8 AND THEN RAISED BY SAME 0.125 PERCENTAGE POINTS BACK TO 4.875 PERCENT PER ANNUM, EFFECTIVE FEB 24. AVERAGE CALL MONEY RATE (JEI 178) WAS 4.804 PERCENT PER ANNUM IN FEB, SLIGHTLY UP FROM 4.788 PERCENT IN JAN. BILL DISCOUNT RATE HAS REMAINED UNCHANGED AT 5.25 PERCENT PER ANNUM SINCE DEC 31 OF LAST YEAR.
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